



PRESS RELEASE

May 17, 2010

**Connacher Oil and Gas Limited announces the submission of an Environmental Impact Assessment application for the expansion of bitumen production capacity at Great Divide to 44,000 bbl/d**

CALGARY - Connacher Oil and Gas Limited ("Connacher") announced today it has submitted an Environmental Impact Assessment ("EIA") application to the Energy Resources Conservation Board ("ERCB") and Alberta Environment ("AENV") for the expansion of steam assisted gravity drainage ("SAGD") bitumen production capacity at the company's principal 100 percent-owned Great Divide oil sands lease block in Northeastern Alberta from 20,000 bbl/d to 44,000 bbl/d (the "Great Divide SAGD Expansion Project" or the "Project").

Connacher is the owner of two existing SAGD developments. The first development is known as the Great Divide Pod One project ("Pod One"). The second development is known as the Algar project ("Algar"). The Pod One and Algar projects are within company's Great Divide lease block, a 58 section (approximately 37,120 acres) area of oil sands properties leased from the Crown in the right of the Province of Alberta, located in the Divide region near Mariana Lake, Alberta, in the Regional Municipality of Wood Buffalo.

Pod One has a design steam generation capacity of 27,000 bbl/d, which, at its forecast long-term target peak operating steam:oil ratio ("SOR") of 2.7, is anticipated to facilitate production of 10,000 bbl/d of bitumen over a project life of more than 25 years. Pod One commenced commercial operations in March 2008 and is currently ramping up to near design capacity. The Algar project has a design steam generation capacity of 30,000 bbl/d, which, at its forecast long-term target peak operating SOR of 3.0, is anticipated to facilitate production of 10,000 bbl/d of bitumen, also over a project life of more than 25 years. Algar received regulatory approval in 2008 and construction was completed in April 2010. Commissioning of the Algar plant is anticipated to be completed in May 2010, followed by a period of up to 90 days of initial steam circulation of the oil sands reservoir prior to steam injection and first production, anticipated in the third quarter of 2010.

The Great Divide SAGD Expansion Project will involve expanding the central processing facility ("CPF") at Algar from 10,000 bbl/d of bitumen processing capability to 34,000 bbl/d. The Pod One CPF will not be altered as part of the Project. Connacher's independent reserve evaluator, GLJ Petroleum Consultants Ltd., has assigned 471 million of proved ("1P") plus probable ("2P") (2P is comprised of proved and probable reserves) plus possible ("3P") bitumen reserves to Great Divide as at December 31, 2009, which Connacher believes will support the proposed Project production targets. Possible reserves comprise 82 million barrels of the 3P reserves as at December 31, 2009. Estimates of reserves have been prepared in accordance with National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook.

Subject to receipt of regulatory approvals, which is expected to require up to approximately 18 months, construction on the expansion of the Algar CPF could commence in early 2012. Including the time required for construction of well pads and the drilling of associated SAGD well pairs, Connacher anticipates it would require approximately one year from approval to finish the Project, assuming the Project is completed as one 24,000 bbl/d module, at an initial estimated capital intensity of approximately \$25,000 per flowing barrel of bitumen. The Project could also be completed in consecutive 12,000 bbl/d modules over a longer period of time, at a similar estimated cost per flowing barrel, if circumstances and economics warrant. The Project has an estimated 25 year life, during which 40 well pads and 215

SAGD well pairs would be required to allow for full development and production from the identified reserve base. Once fully operational, the Project is expected to employ 80 additional persons and including initial capital costs, will contribute several billion dollars of both direct and indirect economic benefit, largely to the Alberta and Canadian economies, including royalties payable to the Province of Alberta.

The submission of this application marks the culmination of over two years of detailed environmental, engineering, geological and socio-economic analysis conducted by Connacher. Over 15 consulting firms with experience in the oil sands were involved in the preparation of the materials and reports that serve as the basis for this application. The application will be posted on Connacher's website at [www.connacheroil.com](http://www.connacheroil.com) in the near future.

Connacher Oil and Gas Limited is a Calgary-based exploration, development, production, refining and marketing oil company. Our major asset is our interest in the Great Divide bitumen production projects. Pod One, our first 10,000 bbl/d SAGD project, is currently operational. Algar is the company's second 10,000 bbl/d bitumen production project and it was also designed for further expansion, upon receipt of regulatory approvals. We also own conventional crude oil and natural gas production in Western Canada and own and operate a 9,500 bbl/d heavy oil refinery located at Great Falls, Montana and maintain an approximate 19 percent equity stake in Petrolifera Petroleum Limited, a public oil company active in Argentina, Peru and Colombia in South America. Our common shares (CLL - TSX) and our outstanding convertible debentures are listed for trading on the Toronto Stock Exchange.

#### **Forward-Looking Information:**

This press release contains forward-looking information including but not limited to the proposed expansion of bitumen production capacity at Algar, anticipated long-term peak operating SORs for and production levels from Pod One and Algar, planned timing for commissioning, steaming of the steam pipelines, SAGD well pads and well pairs and first production from Algar, estimated reserves, timing for receipt of regulatory approvals and construction of the Great Divide SAGD Expansion Project, the anticipated capital costs associated with the Great Divide SAGD Expansion Project, the number of well pads and SAGD well pairs planned for full development and production of the identified reserve base and potential benefits to economic development as a result of the proposed the Great Divide SAGD Expansion Project. Forward-looking information is based on management's expectations regarding future growth, results of operation, production, future commodity prices and foreign exchange rates, future capital and other expenditures (including the amount, nature and sources of funding thereof), plans for and results of drilling activity, environmental matters, business prospects and opportunities and future economic conditions. Forward-looking information involves significant known and unknown risks and uncertainties, which could cause actual results to differ materially from those anticipated. These risks include, but are not limited to operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve and resource estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks; the uncertainty of geological interpretations; the risk of commodity price and foreign exchange rate fluctuations; risks associated with the impact of general economic conditions; and risks and uncertainties associated with securing and maintaining the necessary regulatory approvals and financing to proceed with the continued expansion of the Great Divide SAGD Expansion Project. The timing for receipt of the required regulatory approvals to commence the Great Divide SAGD Expansion Project is outside of the control of Connacher and, as a result of the regulatory process, changes or modifications to the proposed expansion design may be required to secure the required approvals. The timing of these approvals and the scope of any required changes to the Great Divide SAGD Expansion Project will impact the timing for commencement and completion of construction and the costs associated therewith. Readers should be cautioned that design steam generation capacity for Pod One and Algar is the calculated maximum obtainable steam output based on the applicable plant design and may not be representative of actual steam capacity at Pod One or Algar. The actual SORs realized could have a material impact on the production levels at Pod One and Algar. These and other risks and uncertainties are described in further detail in Connacher's Annual Information Form for the year ended December 31, 2009 ("AIF"), which is available at [www.sedar.com](http://www.sedar.com).

Although Connacher believes that the expectations in such forward-looking information are reasonable, there can be no assurance that such expectations shall prove to be correct. The forward-looking information included in this press release are expressly qualified in their entirety by this cautionary statement, The forward-looking information included in this press release is made as of the date hereof and Connacher assumes no obligation to update or revise any forward-looking information to reflect new events or circumstances, except as required by law.

**For further information, contact:**

Richard A. Gusella  
Chairman and Chief Executive Officer

OR

Grant D. Ukrainetz  
Vice President, Corporate Development

Phone: (403) 538-6201      Fax: (403) 538-6225  
[inquiries@connacheroil.com](mailto:inquiries@connacheroil.com)      Website: [www.connacheroil.com](http://www.connacheroil.com)